

Decision PROPOSED DECISION OF ALJ MALCOLM (Mailed 7/1/97)**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Application of Pacific Gas and Electric Company to Identify and Separate Components of Electric Rates, Effective January 1, 1998. (U-39 E)

Application 96-12-009
(Filed December 6, 1996)

Application of San Diego Gas & Electric Company (U 902-M) for Authority to Unbundle Rates and Products.

Application 96-12-011
(Filed December 6, 1996)

In the Matter of the Application of Southern California Edison Company (U 388-E) Proposing the Functional Separation of Cost Components for Energy, Transmission, and Ancillary Services, Distribution, Public Benefit Programs and Nuclear Decommissioning To Be Effective January 1, 1998 in Conformance with D.95-12-036 as Modified By D.96-01-009, the June 21, 1996 Ruling of Assigned Commissioner Duque, D.96-10-074 and Assembly Bill 1890.

Application 96-12-019
(Filed December 6, 1996)

(See attached service list for appearances.)

O P I N I O N

Summary

This decision resolves issues relating to the allocation of costs between the various functions of Pacific Gas and Electric Company (PG&E), Southern California Edison Company (Edison), and San Diego Gas & Electric Company (SDG&E). It also allocates revenues between customer classes within each function and establishes certain rate design principles.

This process of “unbundling” utility rates and services is integral to the Commission’s implementation of electric industry restructuring.

I. Procedural Background

A. *Electric Restructuring Policy and Decisions*

This proceeding is part of the Commission’s larger effort to promote competition in electric generation markets. Decision (D.) 95-12-063, as modified in D.96-01-009, set forth in general terms the Commission’s policy in matters concerning electric industry restructuring. That order acknowledged that under the new market structure electric system transmission would be regulated by the Federal Energy Regulatory Commission (FERC) and that distribution would remain under the Commission’s jurisdiction. The order identified the need to disaggregate electric utility rates by “unbundling” generation, transmission and distribution for all direct access customers. This proceeding is the Commission’s forum to accomplish such unbundling.

A series of rulings provided guidance to the utilities with regard to the scope of their applications to unbundle their system rates. On September 23, 1996, Assembly Bill (AB) 1890 became law, generally codifying the restructuring plan set forth in D.95-12-063. That legislation established a Power Exchange (PX), through which electricity could be purchased and sold, and the Independent System Operation (ISO), which would dispatch and manage the transmission system.

Subsequently, the Commission issued D.96-10-074 specifying the extent of cost separation to be addressed in the utility applications. It ordered each utility to separate its last authorized rate base and revenue requirement into generation, transmission, and distribution consistent with the anticipated FERC order on transmission revenue requirement. On March 31, 1997, the ISO and PX trustee filed tariffs and other documents at the FERC in order to create the ISO and PX by January 1, 1998. The utilities filed proposals for their respective transmission revenue requirements at the FERC concurrently.

B. The Unbundling Proceeding

On December 6, 1996, PG&E, Edison and SDG&E filed these applications in separate dockets. The three dockets were consolidated to facilitate review. On January 31, 1997, the Administrative Law Judge (ALJ) issued a ruling defining the scope of the proceeding and addressing other procedural matters. In accordance with the ruling, utilities served supplemental testimony on February 14. Other parties served testimony on February 28. The Commission held evidentiary hearings for 15 days from March 24 through April 14 at which 53 witnesses testified on behalf of 18 parties.

The active parties other than the utilities are Office of Ratepayer Advocates (ORA), the California Energy Commission (Energy Commission), Agricultural Energy Consumers Association (AECA), Bay Area Rapid Transit (BART), California City-County Street Light Association (CAL-SLA), California Building Industry Association (CBIA), California Farm Bureau Federation (Farm Bureau), California Industrial Users (CIU), California Large Energy Consumers Association (CLECA), California Manufacturers Association (CMA), California Mobilehome Resource and Action Association, Inc. (CMRAA), Cogeneration Association of California (CAC), Energy Producers and Users Coalition (EPUC), Department of Defense/Department of the Navy/Federal Executive Agencies (DOD), Enron and its affiliate Enron Capital and Trade Resources (Enron), Southern Energy Retail Training and Marketing (Southern), The Utility Reform Network (TURN), Utility Consumers Action Network (UCAN), and Western Mobilehome Parkowners Association (WMA).

On March 19, the utilities, ORA , CIU, CLECA, CMA, and DOD filed their Joint Motion for Adoption of Retail Transmission Rate Stipulation, together with the Retail Transmission Rate Stipulation dated March 19. No party filed comments on the motion or opposed it.

On April 30, parties filed opening briefs. On May 9, 1997, parties filed reply briefs and the matter was submitted.

II. Scope and Purpose of the Proceeding

The primary purpose of this proceeding is to unbundle the three utilities' revenue requirements into major functions in order to promote competition in electrical generation markets. Specifically, we (1) identify separate revenue requirements for distribution; (2) allocate costs of these functions to the various customer classes, and (3) address corresponding rate design principles. We also establish a revenue requirement and cost allocation for public benefit programs consistent with AB 1890.

A secondary objective of this proceeding is to determine the information the utilities must provide on their customer bills beginning with the introduction of direct access on January 1, 1998. The success of direct access depends largely on customers having information that permits them to make reasoned choices about electricity purchases.

The parties also addressed the issue of whether tariffs for master meter customers should be changed in light of direct access.

In addressing the subjects appropriately within the scope of this proceeding, it is useful to identify those issues that are not addressed here and that are subjects of other proceedings. The Commission has already issued D.97-05-039, in which we resolved issues relating to billing and metering.

Costs which are associated with uneconomic generation are addressed in the Electric Restructuring Rulemaking (R.)94-04-031/Investigation (I.) 94-04-032. Load profiling is properly the subject of the Direct Access which is also addressed in, R.94-04-031/I.94-04-032. That proceeding is also the appropriate forum for considering mobilehome park tenants' eligibility for direct access. Performance-based

ratemaking (PBR) proposals are under consideration in the related proceedings of individual utilities. The revenue bonds which the utilities will issue to finance the rate reductions mandated by AB 1890 are being considered in separate applications filed by each utility.

III. Retail Transmission Rate Stipulation

On March 19, 1997, several parties filed with the Commission a “Joint Motion for Adoption of Retail Transmission Rate Stipulation.” The stipulation was signed by CIU, CLECA/CMA, DOD, ORA, PG&E, SDG&E, and Edison. The stipulation makes three recommendations. It asks the Commission to support the position that the FERC defer to the Commission’s recommendations regarding the design of rates for unbundled retail transmission service. It recommends that the Commission adopt in this proceeding the retail transmission revenue allocation and rate design methods included in the utilities’ December 6, 1996 filings, supplemented by Appendix A to the stipulation. Finally, it recommends that the Commission file comments with FERC supporting a request that FERC defer to the Commission’s recommendations for developing revenue allocations and rate design for unbundled retail transmission service for at least the first two years after implementation of the new industry structure.

No party protested either the joint motion or the elements of the stipulation. On June 5, 1997, the Commission filed comments in the FERC dockets addressing these issues. In the filing, we stated our support for the proposition that FERC should defer to our recommendation regarding revenue allocations and rate design for unbundled retail transmission service, as the stipulation proposes. (See “Notice of Limited Protest, request for Hearing and Request for Deference to the Public Utilities Commission of the State of California on Rate Design and Cost Allocation for Retail Transmission Customers,” in Docket Nos. ER97-2358-000, ER97-2364-000 and ER97-2355-000. Also see “Initial Comments of the Public Utilities Commission of the State of California on the March 31, 1997, Phase II Filings,” in Dockets EC96-19-003 and ER96-1663-003.) Our recommendation came in response to the stipulation and in recognition that the FERC and this Commission have relied upon different approaches

for wholesale and retail ratemaking, respectively. The application of those differing approaches as to retail rates might result in significant shifts in cost responsibility between retail customer classes. AB 1890 explicitly prohibits such cost shifting (see Public Utilities (PU) Code §§ 330, 367(e)).¹ At the time we filed our comments at FERC, we had not yet formulated such recommendations which are the subject of this order and so did not comment on the methods proposed by the stipulation.

The Commission's most recently adopted revenue allocation methodologies determine marginal costs for each customer class and then reach the adopted revenue requirement by increasing (or decreasing) the rate by an equal percent of marginal cost for each class.

Edison proposes to apply this "equal percentage of marginal cost" (EPMC) methodology on the basis of total revenues instead of by functions, as PG&E and SDG&E propose.

ORA supports Edison's EPMC method, arguing that the methods proposed by PG&E and SDG&E are equivalent to an embedded costs allocation.

CAL-SLA supports PG&E's approach, believing it provides for an allocation that is proportional to the existing revenue requirement.

In the decision in which we adopted long-run marginal costs for gas prices, the Commission found that applying the EPMC method on a functional basis is, as ORA observes, essentially applying an embedded cost method. We reject such an approach, consistent with our view that EPMC is superior in moving utility prices toward those that would be found in competitive markets. We adopt ORA's recommendation and direct all three utilities to use Edison's EPMC approach in allocating costs between customer classes.

IV. Criteria for Evaluating Unbundling Proposals

The purpose of unbundling, as we have stated many times, is to promote the development of competitive markets for generation services. The purpose of

¹ All section references are to the Public Utilities Code unless otherwise indicated.

promoting competition where it may be viable is to assure the best use of the economy's resources, to assure customers pay the lowest price for services, and to expand the array of services available to customers. Unbundling promotes competition by providing customers with options for individual services and sending customers price signals which would permit them to make reasoned choices about their competitive options. We accomplish unbundling the various utility functions with certain more specific criteria guiding our assessments.

A. *Unbundling Must Be Consistent With the Spirit and Letter of AB 1890 and Other Relevant Law*

AB 1890 set the state on a course of electric industry restructuring which this proceeding in part implements. AB 1890 recognized that "in order to achieve meaningful wholesale and retail competition in the electric generation market, it is essential to...(s)eparate monopoly utility transmission functions from competitive generation functions...." (PU Code § 330(k)(1).) More specifically, the statute directs the Commission to review utility cost recovery plans which must "provide for identification and separation of individual rate components such as charges for energy, transmission, distribution, public benefit programs, and recovery of uneconomic costs." (PU Code § 368(b).) D.96-12-077 approved those plans as an interim step towards the process of unbundling which we continue in more detail here.

In providing for unbundled rates, AB 1890 prevents discriminatory ratesetting by providing that "the separation of rate components required by this subdivision shall be used to ensure that customers of the electrical corporation who become eligible to purchase electricity from suppliers other than the electrical corporation pay the same unbundled component charges, other than energy, a bundled service customer pays." (§ 368(b).) The section continues "(n)o cost shifting among customer classes, rate schedule, contract, or tariff options shall result from the separation required...."

Finally, AB 1890 provides for recovery of costs associated with public benefit programs by way of a separately identified charge. (See § 381.)

We proceed with these and related requirements as the foundation for our analysis of parties' proposals.

B. Costs Associated With One Function Will Not Be Allocated to Other Functions

Unbundling utility rates and services is one of the primary means by which efficient markets may develop for utility products and services. That is, to the extent that prices reflect the costs of associated products and services, sellers will offer the most efficient quantity and variety of these products and services. Buyers will then be able to make purchasing decisions that best serve their interests.

In pursuing a policy to promote more efficient generation markets, we reject proposals to allocate to monopoly functions any costs associated with services that are or will be subject to competition. Specifically, we will not permit allocations of generation cost to distribution customers. To do so would compromise market efficiency by producing artificially low utility generation rates (or utility profits which do not correspond to utility risk) and provide competitive advantages, which would stifle competition to the utilities. Moreover, any allocation to monopoly customers of costs associated with competitive products would be unfair to monopoly customers because they would, in effect, be required to subsidize shareholder profits.

C. Utility Revenue Requirements Will Not Be Modified in This Proceeding.

Some parties propose that the Commission modify certain revenue requirements to reflect activities that the utilities will no longer undertake following the implementation of direct access. Utilities reply that this proceeding is not designed to accomplish any adjustments to their revenue requirements. They observe that AB 1890 does not direct the Commission to modify the utilities' revenue requirements here.

This proceeding is not the appropriate forum for reaching the potentially complex issues relating to changes in revenue requirements. In D.96-10-074, we ordered the utilities to file revenue requirements "based on our last authorization and separate this total between transmission and distribution" (emphasis added). By this,

we stated our intent to consider existing utility revenue requirements in this proceeding. We have accordingly emphasized allocations of existing costs to utility functions in this proceeding rather than seeking to accomplish the more ambitious task of reviewing revenue requirements.

We are aware that the utilities' activities will change in the next few years. For example, the ISO will take on dispatch and management of electric loads. The utilities may eliminate or redefine some of their customer relations and generation activities. Even if we do not create new forums to consider these potential cost reductions, we recognize that these types of changes in activities will affect utility revenue requirements in the near future. We find nothing in AB 1890 to restrict this Commission's authority to adjust revenue requirements as long as the changes are otherwise consistent with the statute's provisions. In fact, AB 1890 requires PG&E to file a general rate case in late 1997. Edison's PBR review is scheduled for 1999. The Commission is in the process of mid-term reviewing of SDG&E's base rate PBR mechanism and may decide to review SDG&E's revenue requirement in the near future.

Until then, we are not inclined to consider changes in revenue requirement piecemeal because that it would be unfair to consider a few accounts in isolation. One way or another, utility rates will reflect lower costs, consistent with our and the Legislature's policy the purpose of electric restructuring is to exploit economic efficiencies and reduce electric rates. We therefore decline any proposals to change the size of the utilities' total revenue requirements here except where required by law.

D. Utility Risk Will Not Change in This Proceeding

The Commission's policy and AB 1890 set forth industry and regulatory changes that will in some instances create new risks for the utilities and in others shelter them from risk. Predictably, parties have advocated positions in this proceeding which would limit the liability of their respective constituencies. As always, our objective is to balance utility risk with opportunities for earnings in each relevant market. In this decision, however, we avoid having to weigh risk and reward to the extent possible. It is our intention to retain existing levels of risk

overall. In so doing, we decline proposals which change the mix of risk and reward from that anticipated by AB 1890 and relevant Commission decisions.

We recognize that some of these principles may conflict or compete when applied to specific proposals. In such cases, we consider the relevant risks and costs, the primacy of our goal to promote competition, and principles of fairness. We address them where applicable to individual proposals in subsequent sections.

We proceed to address unbundling by first reviewing utility proposals generally. We then address allocations to specific functions or accounts within them and consider how to allocate costs between transmission and distribution revenue requirements. We then proceed to allocate revenues within each function and to establish rate design principles. Finally, we address billing and master metering issues.

V. Utility Revenue Requirements Proposals

The utilities each filed proposals for determining revenue requirements for each functional category: distribution, transmission, public purpose programs, and nuclear decommissioning and generation. In general, their proposals were very similar. Each would develop its competition transition charge (CTC) residually after determining other costs. They propose that the Commission adopt distribution revenue requirements by subtracting from nongeneration revenue requirements the transmission revenue requirements approved by the FERC. Each utility would allocate to distribution revenue requirement costs that they do not attribute directly to other functional categories.

AB 1890 requires the establishment of a separate rate component to collect the revenues to fund (1) energy efficiency activities; (2) research and development; (3) operation and development of renewable resource technologies; (4) low income energy efficiency services (LIEE), and (5) the California Alternative Rate for Energy (CARE) program.

AB 1890 also requires the establishment of a separate charge for nuclear decommissioning, which the utilities propose here.

Each proposal is discussed in more depth below.

A. PG&E

PG&E proposes the following 1998 revenue requirements for each functional category:

Generation	\$5,222 million
Transmission	291
Distribution	2,031
Public Purpose Programs	270

PG&E derives the total by adjusting the revenue requirement adopted in its last general rate case consistent with its 1997 Energy Cost Adjustment Clause (ECAC) decision (D.96-12-080). It then increases the revenue requirements for its safety and reliability programs by an inflation factor plus two percent, or \$172 million, pursuant to Section 368(e). PG&E also increases revenue requirements by \$48 million to fund renewable resource technologies, consistent with Section 381(c).

PG&E states it assigned costs to various functions according to cost causation, consistent with Commission policy. Costs which it could not attribute directly to a function were allocated to distribution in most cases.

B. Edison

Edison proposes the following 1998 revenue requirement for each functional category:

Transmission	\$ 211 million
Distribution	2,028
Public Purpose Programs	178
Nuclear Decommissioning	104

To derive the generation rate, Edison proposes to subtract from the rate levels in effect on June 10, 1996, the adopted PBR distribution rates, transmission rates, public benefits charges, nuclear decommissioning charges, rate reduction bond repayment charges and other miscellaneous costs. From this, Edison would determine

the CTC residually by subtracting its cost of procuring energy and other services from the ISO/PX.

Edison recommends that the Commission derive its distribution rates by subtracting FERC-adopted transmission rates from the amount identified in its PBR as nongeneration rates. Edison refers to this residual approach to allocating costs as a “rate credit” method. Edison supports this approach by observing that the Commission has already approved Edison’s nongeneration revenue requirement and that FERC is expected to rule soon on the utilities’ transmission revenue requirement proposals.

Edison proposes to allocate administrative and general (A&G) costs between functions by identifying them in one of three ways: direct, joint or common. Direct costs are those that can be associated with a single business segment and are assigned to that segment. Joint costs are those which are associated with multiple business segments on the basis of an indirect relationship or pursuant to a special study of the costs. Common costs includes those that have no causal relationship to a single business segment or group of segments. Edison refers to common costs as fixed costs because they do not vary with specific factors. Edison observes that less than five percent of its costs are fixed.

In light of its understanding that FERC will not establish a final transmission revenue requirement in time for the introduction of direct access on January 1, 1998, Edison proposes a balancing account to adjust transmission and distribution revenues at a later time.

Edison proposes a balancing account and associated nonbypassable surcharge it titles the Miscellaneous Adjustment Mechanism (MAM) that would recover numerous generation-related costs, proposing an initial revenue requirement for the account of negative \$22.244 million in 1998.

C. SDG&E

Like Edison and PG&E, SDG&E proposes to establish the distribution revenue requirement residually by subtracting the FERC-approved transmission revenue requirement from the nongeneration revenue requirement. To derive its current total revenue requirement, SDG&E used its last general rate case revenue

requirement as the base, and escalated it for operation and maintenance (O&M) and capital costs using its approved PBR mechanism. It increased the amount to include authorized transmission O&M expenses approved in its 1996 ECAC decision. SDG&E also included two rate increases associated with the Fuel Price Index Mechanism authorized by Section 397 of AB 1890.

SDG&E's total revenue requirement by function is:

Transmission	\$ 121 million
Distribution	542
Public Purpose Programs	_____
DSM	32
RD&D	4
Renewables	12
CARE	8.5
Nuclear Decommissioning	22

SDG&E assumed a revenue requirement of \$73 million for repaying the bonds issued to reduce residential and small commercial rates.

VI. Development of the Distribution Revenue Requirements and Treatment of FERC Revenue Requirements for Transmission

The utilities propose that the Commission establish the distribution revenue requirements after subtracting the FERC-approved transmission revenue requirements from the combined non-generation revenue requirements. They observe that if the Commission does not account for the FERC revenue requirements, the utilities will either be denied an opportunity to recover reasonable costs or will have an opportunity to receive windfall profits from the difference.

Edison refers to its proposal as a "rate credit" approach. It argues that any other method would effectively require the Commission to relitigate its general rate case. SDG&E argues that deriving the revenue requirements using methods other than the one it proposes will create new risks for the utilities because the utility will not have an opportunity to recover its costs.

Farm Bureau argues that the utilities' method would permit the utilities to charge distribution customers for services not being performed. Edison responds that all of its distribution customers are also its transmission customers. It observes that a higher revenue requirement for one function implies a lower revenue requirement for the other, making the customer indifferent.

Several parties, including CAC/EPUC, CLECA/CMA, CIU, ORA, and TURN/UCAN, argue that the utilities' approach would require the Commission to abrogate its authority to the FERC by effectively allowing the FERC to determine the utilities' distribution revenue requirements. Edison responds to this concern by observing that the Commission found the total nongeneration revenue requirement to be reasonable and that it may be assured that the FERC transmission revenue requirement will be reasonable. The difference between the two, therefore, must also be reasonable, according to Edison.

CAC/EPUC also argue that under Edison's rate credit approach, Edison will have an incentive to stipulate to any level of transmission revenue requirement, and its allocation between the wholesale and retail jurisdictions. Edison responds that because it has to update its Transmission Revenue Requirements at FERC annually, it will have every incentive to "get it right" from the outset.

CIU recommends that the Commission assume for ratemaking purposes that the FERC has adopted the revenue requirements the utilities proposed, rather than the one the FERC ultimately adopts. The utilities reply that this approach would almost certainly result in revenue losses for them.

CLECA/CMA observe that FERC may adopt a revenue requirement that differs from previous Commission revenue requirements for transmission because it may, for example, employ a different rate of return or different depreciation rates. The resulting lower revenue requirement, according to CLECA/CMA, should not be made up by distribution customers whose rates are subject to Commission jurisdiction. Edison responds that such differences may be monitored by the Commission and accounted for.

One of the consequences of electric industry restructuring is the transfer of transmission ratemaking activity from the Commission to FERC. Although FERC always retained authority over regulation of transmission, it deferred to the states to set a total revenue requirement for the transmitting utility, a revenue requirement which included the reasonable cost of transmission. Henceforth, FERC will have sole responsibility to set transmission revenue requirements.

We defer to FERC's authority and its decisions. Nevertheless, we will not abandon our own authority or responsibility to FERC by allowing it to determine the revenue requirements for distribution, a determination over which we have sole responsibility and authority, which no party disputes. To be sure, we may not lawfully delegate our authority to another agency. Section 454 requires the Commission to issue findings with regard to the reasonableness of utility rates, a process which assumes cost allocations between customer classes and utility functions. AB 1890 requires a rate freeze and a "fire wall" which retains certain cost allocations between customer classes. It nevertheless provides in Section 367(e)(3) that "The Commission shall retain existing cost allocation authority, provided the fire wall and rate freeze principles are not violated." Establishing a distribution cost allocation which is premised entirely on the findings of FERC would be an abrogation of our authority under Section 454 and Section 367(e)(3).

If, as the utilities argue, the potentially disparate ratemaking decisions of FERC and this Commission creates risk, it is a risk already anticipated by AB 1890 and previous Commission decisions. Accordingly, regulation and legislation have already accounted for this risk in offsetting concessions to the utilities. In any event, the risk that the FERC and Commission decisions may create a shortfall is at least partially offset by the opportunity for additional profit, as PG&E observes.

We also reject the utilities' proposals to set distribution rates residually because it could put us in the position of second-guessing FERC decisions. To the extent that FERC reduces the utilities' proposed revenue requirements, it finds that for whatever reason the costs of utility transmission are not reasonable. The utilities propose that we effectively overlook the FERC's findings and to determine that those same costs

are reasonable by including them in distribution rates. We would only grant such a request with a showing that the specific costs are both reasonable and associated with distribution activities. None of the utilities have made such a showing here if for no other reason than they have no FERC decision upon which to form their proposals.

Just as we have declined to reduce the distribution revenue requirements in this proceeding to account for costs associated with activities the utilities may no longer conduct, we decline to increase the distribution revenue requirements to account for FERC decisions. In each instance, the utilities will have an opportunity to make their case with regard to specific revenue requirements changes in their PBR proceedings or, for PG&E, general rate case. In the interim, we will adopt the revenue requirement for distribution that each utility proposes here with the adjustments we make in subsequent sections, consistent with law and policy. To the extent necessary, we will revisit these revenue requirements at a later date, as discussed below.

VII. Functional Accounts

A. *Load Dispatching and Costs Associated with the PX and ISO.*

The utilities have historically incurred costs in dispatching power to customers on their systems and managing those dispatching activities to provide high-quality service. With the introduction of direct access, the ISO and PX will take on these activities.

TURN and UCAN argue that the utilities have inappropriately included in their distribution revenue requirements the costs of load dispatching and power purchasing. TURN and UCAN observe that the ISO and PX will be assuming related responsibilities and that the utilities should not be able to include such costs in rates. TURN and UCAN recommend reducing PG&E's revenue requirement by \$10.83 million, SDG&E's by \$5.53 million and Edison's by \$17.02 million for associated costs. ORA objects to SDG&E's inclusion of these costs in distribution rates on the same basis.

Edison comments that the Commission should not reduce these revenues because the proposal ignores the fact that the utilities will incur additional

implementation costs. SDG&E will incur costs associated with “interface” activities with the ISO.

One of our criteria for determining the reasonableness of a proposal is whether it allocates the costs of a given function to that function’s revenue requirement. Here, the utilities propose to include in the distribution revenue requirement the costs of generation dispatch and control. The utilities will no longer conduct generation dispatch and control beginning January 1, 1998. While there may be some uncertainty about the ongoing activities the utilities will conduct in working with the ISO, we are not convinced that the utilities’ activities will differ in any significant respect from those of its generation competitors. Therefore, the dispatch and control “interface” and “implementation” costs will be the responsibility of the ISO and will be included in ISO transmission rates. We therefore follow TURN and UCAN’s recommendations to remove associated costs from the utilities’ revenue requirements for distribution.

B. Line Extension Allowances

TURN/UCAN propose that the Commission in this proceeding recognize the changes to line extension policy which may be adopted in R.92-03-050. Specifically, they believe line extension allowances should be scaled back to reflect only the distribution revenues, rather than total revenues reflected in current allowances. They also believe changes in line extension allowances should be reflected in revenue requirements adopted here.

ORA and the utilities agree that the Commission should defer this issue to R.92-03-050 the rulemaking associated with this issue. CBIA objects to TURN/UCAN’s proposal, arguing that the Commission does not have adequate evidence in this proceeding to revise existing rules.

We agree that we do not have adequate information here to undertake any changes to line extension rules or the way rates are designed to accommodate rule changes. We will defer consideration of this issue to R.92-03-050 and revisit the issue as it affects revenue requirements in the utilities’ PBR and general rate cases, if necessary.

C. Cost of Capital

SDG&E recommends retaining a bundled cost of capital and not unbundling it by functions. It observes that as an integrated company, it does not have separate units issuing their own debt and equity. PG&E and Edison also assume the cost of capital would not change in this proceeding.

TURN and UCAN propose that the Commission initiate a proceeding to develop and implement unbundled costs of capital that will reflect the risks associated with unbundled utility functions. They believe the Commission should make 1998 rates subject to refund for this purpose. TURN and UCAN observe that the Commission earlier declined to unbundle the costs of capital in 1994 because it believed the exercise was premature, suggesting the issue would be reconsidered as rates were unbundled (D.94-11-076).

Edison generally concurs with TURN and UCAN's procedural recommendation, although it does not agree with their assumption that rates of return are likely to fall.

We agree that the utilities' authorized cost of capital should ultimately reflect new market structures and the variation in risk between various utility functions. We do not believe the need for such a review, however, is urgent. PG&E's cost of capital is currently under review. Edison and SDG&E were excused from such reviews in their PBRs. We will review utility cost of capital in the next PBR review proceedings of Edison and SDG&E and in PG&E's upcoming general rate case.

D. Escalation Factors

In developing this 1998 revenue requirements, the utilities "escalated" their last authorized revenue requirement to account for the effects of inflation on their costs. SDG&E escalated its revenue requirement for transmission and distribution by using the method adopted by the Commission in its PBR for SDG&E's total revenue requirement.

ORA opposes SDG&E's escalation methodology on the basis that the mechanism was designed to address the effects of escalation on the combined company. ORA observes that the results provide estimates of transmission and

distribution compared to generation that are out of line with actual ratios. ORA proposes instead to determine the percentage of the transmission and distribution revenue requirements compared to the total 1993 revenue requirement and then applying that percentage to the 1996 authorized base revenue requirement.

SDG&E's method applies most recently adopted PBR escalation rates and is generally reasonable. We therefore adopt it.

PG&E's and Edison's escalation factors were not controversial, and we adopt them.

E. Catastrophic Events Memorandum Accounts (CEMA)

Edison, PG&E, and SDG&E currently have CEMAs into which they enter costs incurred during catastrophic events. ORA proposes that Commission eliminate the CEMA for generation costs on the basis that it would provide a competitive advantage to utilities. Edison and PG&E's proposals are consistent with this recommendation. SDG&E's distribution revenue requirement appears to have no CEMA costs included in it. We adopt the proposals to eliminate CEMA for generation-related costs for all three utilities, effective January 1, 1998.

F. Hazardous Substance Clean-up and Litigation Cost Accounts (HSCLS)

Edison, PG&E, and SDG&E currently have HSCLSs into which they enter costs associated with hazardous waste clean-up. ORA recommends that these accounts no longer include the costs of generation-related clean-up. Retaining these accounts for generation-related costs would provide a competitive advantage to the incumbent utilities. We adopt ORA's proposal to prohibit entries into HSCLS which relate to generation costs, effective January 1, 1998. The resulting adjustment to distribution revenue requirements for Edison is \$1.36 million and for PG&E is \$.1 million. SDG&E did not include an HSCLS balance in its distribution revenue requirement. Therefore, that revenue requirement needs no associated adjustment.

G. Administrative and General (A&G) Expenses**1. Fixed A&G Costs**

Edison proposes to allocate to distribution revenue requirement the fixed A&G costs associated with fossil generation. These costs, Edison observes, are those that could otherwise be assigned to generation by way of a multi-factor allocation method. Edison believes intervenors' recommendation to allocate these fixed costs to generation by way of the multi-factor approach would represent "an improper disallowance of appropriately incurred costs" because they are costs Edison cannot recover in competitive generation markets. It argues that these fixed costs would be incurred whether or not it divests its generation assets and that at least some costs are fixed over a period of time. Since they are reasonably incurred, Edison argues, they must be recoverable in rates.

SDG&E and PG&E also allocated A&G costs to distribution which they could not attribute directly to other functions, changing existing allocations to transmission and distribution. PG&E believes it will not avoid such costs if it divests itself of generation. It argues that allocating residual costs to generation would require PG&E to set generation prices that would not be sustainable in competitive markets. PG&E and SDG&E argue that the assignment of only incremental costs to generation is efficient and does not create competitive advantages because competitors will compete based on their incremental costs.

CAC/EPUC and Farm Bureau object to the utilities' exclusion of A&G costs from generation accounts. CAC/EPUC observe that PG&E's justification for its method is unsupported by AB 1890 which requires all "going forward" A&G costs to be included in the generation revenue requirement. AB 1890, according CAC/EPUC, does not refer to "incremental" costs or otherwise distinguish fixed costs in ways which would support the utilities' reliance on AB 1890.

Enron also believes PG&E has shifted A&G costs from generation to distribution based on past allocations used to set FERC jurisdictional rates. CLECA/CMA argue the utilities should not be permitted to use an incremental approach when it suits their interests, as here, and an embedded one when it doesn't.

CLECA/CMA take issue with the utilities' position that their distribution fixed costs won't change after their assets are divided in half. CLECA/CMA also observe that the utilities' approach is anticompetitive because competing firms must ultimately recover all of their costs, not just those that are incremental, from the market.

ORA believes the utilities' approach applies incremental ratemaking in an exercise that involves embedded costs. It believes the utilities will be able to recover their fixed generation costs readily in the marketplace for generation.

DOD rejects the utilities' argument that their proposals are consistent with the Commission's pricing of telecommunications costs based on "TSLRIC" (total service long-run incremental costs). DOD observes that the Commission has specifically required that TSLRIC include all cost components and that the Commission set TSLRIC without regard to embedded revenue requirements. DOD would propose going forward on that basis, believing that the utilities' corresponding rates would be considerably lower as a result.

TURN and UCAN propose phasing out generation fixed costs at a rate of 25% annually to recognize that fixed costs are variable over time, that is, they may be reduced according to output.

Edison argues that TURN and UCAN have improperly considered cost reductions already reflected in Edison's cost studies. It believes UCAN and TURN's phase-out proposal is unsupported by any study of Edison's actual costs.

Some utility costs do not vary over some period of time. They are incurred notwithstanding the utility's output. It does not necessarily follow, however, that distribution customers should assume liability for all such costs even if the utilities will continue to incur them. The utilities' argument that they will be unable to recover these costs in generation markets is not convincing. Their competitors also incur fixed costs. Arguably, competitors' fixed costs are higher per unit of output than the utilities' because many competitors will not realize the economies of scale or scope which the utilities enjoy. A utility's generation system, whether it is owned and operated by the utility or any other entity, will continue to incur fixed costs which

must be allocated to generation. Moreover, uneconomic generation costs are to be recovered in the CTC, pursuant to AB 1890, not in distribution rates.

Section 367(c) of AB 1890 requires that all “going forward costs” of fossil plant operation must be recovered “solely from independent Power Exchange Revenues or from contracts with the Independent System Operator.” We are unaware of any definition that limits “going forward costs” to incremental costs. In this regard, PG&E’s application of economic theory – that its competitors will decide whether to produce an incremental unit on the basis of their incremental costs – is only part of the story. Over time, all generation firms must recover all costs, including those types of costs which the utilities seek to allocate solely to distribution. Consequently, allocating to distribution customers all fixed costs would create a competitive advantage to the utilities at the expense of captive ratepayers, contrary to our stated objectives and the requirements of AB 1890.

We do not agree that allocating generation fixed costs to the generation component of a utility’s revenue requirement will result in an effective disallowance of reasonable costs. If the utilities retain generation facilities, they may recover fixed costs in energy revenues. If they sell generation facilities, they will have opportunities to reduce their overheads. The utilities have not met their burden to demonstrate that any type of fixed cost cannot be reduced, that is, made variable, over the medium term by changes in procurement practices (for example, by contracting out payroll processing) or by offering a related service to other businesses (for example, by selling advertising space in bill envelopes) or by reducing employees (for example, by reducing legal employees to recognize reduced regulatory and legal activities). In effect, the utilities argue that substantial economies of scale exist in their vertically integrated operations, a reasonable assumption. To the extent that it is true, we have no doubt that the utilities and their competitors will take advantage of them with a great deal of inventiveness. As CAC/EPUC observe, however, it is impossible to determine at this time how A&G expenses will change in a competitive market or when the utilities divest their generation.

Consistent with the principles we have articulated earlier in this decision, we will not allocate to distribution functions the costs associated with other functions. The utilities have presented no compelling reason to stray from this principle in the case of A&G costs. We therefore reduce the utilities' proposed distribution revenue requirements as follows:

Edison	\$25.15 million
PG&E	\$49 million
SDG&E	\$ 4.90 million

Therefore, we adopt ORA's methodology.

2. SONGS and Palo Verde A&G Costs

Edison proposes that all A&G costs related to the San Onofre Nuclear Generating Station (SONGS) and Palo Verde Nuclear Generating Station which were not included in the related settlement decision (see D.96-04-059) should be included in Edison's distribution revenue requirement. We reject this approach for the same reason we have declined to include other types of generation costs in distribution rates. If Edison believes it may be unable to recover these generation costs in market rates, the associated costs are appropriately included in the CTC. We therefore reduce Edison's proposed distribution revenue requirement by \$56.58 million.

3. Customer Services and Marketing Costs

Edison seeks \$36 million for customer service and marketing costs for its large customers. It believes these costs should be included in distribution rates because, consistent with FERC accounting guidelines, they are incurred to educate customers about electric system health and safety, conservation and economic use of electricity. SDG&E seeks \$8 million for marketing costs, stating that it refers to the associated activity as "marketing" consistent with the FERC's system of accounts.

PG&E seeks \$15.1 million for marketing costs.

TURN and UCAN propose to remove from revenue requirements all marketing costs associated with positioning the utilities in competitive markets. They would allocate such costs, including overhead costs, to generation customers.

They observe that the Commission has removed such “brokering” costs from gas rates, costs which are comparable to those referred to here as “marketing.”

Edison replies that TURN and UCAN have improperly characterized these costs as marketing costs. Edison states it will not be marketing generation with associated funds and observes that it will continue to incur expenses relating to customer service research, bypass options, rate design and customer education. Edison also objects to TURN/UCAN’s “arbitrary” assignment of \$12.7 million in common plant and overheads to marketing and customer service expenses. SDG&E responds similarly, arguing that large customers are entitled to receive a high level of customer service during this period of dramatic change.

Customers will continue to require a high level of customer service with attendant funding requirements. The matter for resolution here, however, is whether and the extent to which the cost of that service is appropriately assigned to distribution revenue requirements. We share TURN/UCAN’s concern that the utilities have allocated more than a fair share of customer service and marketing costs to distribution. Some of the activities the utilities support with that funding are not related to the distribution system, such as providing information regarding energy efficiency of appliances and bypass options. Most of the activities arguably fall in all three major functional categories, including research and providing information about company policy, procedures, rate design and billing.

We therefore reduce the utilities’ distribution accounts by the amounts which TURN argues are the “minimal” amounts associated with generation activities. The reductions are \$8.24 million for PG&E, \$23.44 million for Edison and \$5.52 million for SDG&E. We adopt these levels because we recognize that the utilities will require some funding for customer services and marketing of their distribution services and because the utilities did not adequately rebut the method TURN/UCAN applied to reach these amounts.

H. Franchise Fees and Uncollectibles (FF&U)

Franchise fees are payments made to local governments for the privilege of constructing distribution and transmission facilities in local communities.

Uncollectibles are those losses associated with customers who fail to pay their electric bills. SDG&E and Edison propose to allocate related costs to distribution and transmission.

ORA proposes that SDG&E and Edison be required to allocate some portion of FF&U to generation, consistent with PG&E's method. We agree with ORA's proposal and PG&E's methodology and allocate to generation one-third of FF&U costs. This results in an adjustment of \$7.47 million in Edison's distribution revenue requirement and \$ 6.4 million in SDG&E's distribution revenue requirement.

I. Miscellaneous Revenue

TURN/UCAN propose that SDG&E be required to update its "miscellaneous revenue" category, which SDG&E shows as \$15 million in this proceeding and which TURN believes the Commission increased in D.95-04-048.

D.95-04-048 adopted a number of changes to increase the miscellaneous revenues. Contrary to TURN's assumption, however, the changes are credited to SDG&E's Electric Revenue Adjustment Mechanism (ERAM) balancing account. We therefore reject TURN's recommendation.

J. Accounts and Charges for Potentially Uneconomic Costs

All three utilities propose to create additional balancing accounts with associated "nonbypassable surcharges" to customer bills for costs which they believe are uneconomic and deserving of special consideration.

1. PG&E's Diablo Canyon ICIP Account

PG&E proposes to create the nonbypassable charge to recover Diablo Canyon nuclear power plant Incremental Cost Incentive Pricing (ICIP) prices that exceed market prices. PG&E states it is authorized to recover such costs because its cost recovery plan, approved by the Commission, provides that these costs would be recovered through a special mechanism rather than through the CTC.

ORA opposes the account on the basis that generation costs should not be recovered from distribution customers. TURN/UCAN oppose the account arguing that the charge is effectively another CTC except in name. TURN/UCAN

believe the above-market ICIP may not be collected as CTC. They also believe the issue is appropriately the subject of Phase 2 of the CTC proceeding.

2. Edison's MAM

Edison proposes to create a MAM, a balancing account that would serve as the vehicle for recovery of certain costs related to generation, distribution, public purpose programs, and other functions. Costs entered into the account would be recovered by way of a nonbypassable charge on customer bills, which Edison refers to as the Miscellaneous Adjustment Mechanism Billing Factor (MAMBF). Edison's MAM would initially be a surcredit or rate reduction of \$22.24 million.

Edison includes in the MAM revenues and costs associated with non-utility affiliates, costs associated with nuclear spent fuel storage and Department of Energy fees, low emission vehicles and hazardous waste costs, SONGS 1 shutdown O&M expenses and the gain on the Yuma-Axis settlement. It would also include intervenor funding, and the Reduced Cost Recovery Amount (RCRA), Devers-Palo Verde regulatory costs, past earthquake recovery costs (and other costs entered into the CEMA) and the costs of its fuel oil pipeline. In all, Edison proposes to include the costs associated with 39 different activities into the MAM. Edison argues that none of these costs are readily assigned to functional business segments. Because the Commission has found the costs to be reasonable, Edison believes it should be granted dollar-for-dollar recovery of them by way of a nonbypassable charge.

ORA opposes the MAM on the basis that the MAM would permit Edison to recover through distribution charge costs that are related to generation, including SONGS 1 shutdown O&M, hydroelectric pumped storage costs. ORA argues that this balancing account, like others proposed by the utility, is proposed in the name of "guaranteed cost recovery which derails the allocation process."

CLECA/CMA argue that the MAM circumvents the Commission's objectives in assigning costs to utility functions and violates the spirit of AB 1890 by ignoring the requirement that rates remain frozen. CLECA/CMA believe the utility proposals are offered with the objective of reducing risk beyond that anticipated by AB 1890 and the Commission's policy.

TURN/UCAN oppose the MAM, arguing that it includes costs that should not be assigned to distribution customers. They oppose the MAM for the same reason they oppose the Diablo Canyon ICIP charge, namely, that the MAM is a CTC except in name and except in the fact that Edison proposes that the MAM continue after the CTC is eliminated in 2002. TURN and UCAN argue that AB 1890 did not permit a balancing account to recover these costs and that the costs are not distinguishable from any other electric base revenue requirement.

3. SDG&E's MAM

SDG&E also proposes to recover \$14.26 million in a MAM account which, like Edison's MAM, would be charged to distribution customers. SDG&E's MAM would include four cost components, among them the SONGS I shutdown costs, spent nuclear fuel storage costs, Department of Energy (DOE) decontamination and decommissioning costs and SONGS 2&3 costs not recovered by the ICIP pricing mechanism.

SDG&E supports its request by arguing that the Commission has already authorized recovery of these costs. It observes that it may not be able to recover the costs during the period over which the CTC will be in effect. Its MAM, like Edison's, would be in effect after the CTC is phased out.

TURN/UCAN and ORA oppose SDG&E's MAM on the same bases they object to Edison's MAM. ORA observes that SDG&E's witness on the subject suggested that these costs can be treated as transition costs. TURN and UCAN argue that the SONGS ICIP costs are appropriately part of SDG&E's base rate revenue requirement and should not be shielded from risk as part of a nonbypassable charge.

We have stated that one criteria for evaluating parties' proposals here is whether costs are allocated to the function with which they are associated. Many of the costs in these various accounts are related to generation, public purpose programs, or transmission. The utilities nevertheless propose to allocate the costs to distribution, contrary to our stated policy.

We have also stated our intent to retain existing levels of risk in this proceeding. As the utilities admit, these three accounts are designed to reduce

utility risk by guaranteeing recovery of certain costs, some of which are currently recovered under different types of ratemaking mechanisms. The nonbypassable surcharges and associated balancing accounts change the mix of risk the utilities face pursuant to Commission orders and AB 1890, contrary to our stated policy.

The utilities justify including these costs in these accounts on the basis that they have already been approved by the Commission. Our past approval of the reasonableness of these costs, however, does not distinguish them from other costs included in other rates or ratemaking mechanisms. The costs recovered through the CTC and in distribution rates, for example, have already been approved in general rate cases. Whether a utility is required to recover, for example, SONGS O&M costs in generation rates or in a MAM account implies nothing about the reasonableness or unreasonableness of those costs. It merely reflects degree of risk which we believe is appropriate for cost recovery and consistent with AB 1890.

In considering the validity of the proposed surcharges, we consult AB 1890. The statute sets forth a complex and comprehensive regulatory framework for restructuring the electric industry. As part of that framework, it mandates the creation of the CTC, a nonbypassable charge, the purpose of which is to provide the utilities with a reasonable opportunity to recover generation costs that might otherwise become stranded in the new market framework. Specifically, Section 367 identifies the regulatory treatment for various types of costs and finds that “uneconomic costs shall be recovered from all customers on a nonbypassable basis” and be amortized over a period which “shall not extend beyond December 31, 2001,” with specified exceptions.

The utilities’ proposals here seek authority to impose nonbypassable charges for generation costs which are not authorized by AB 1890. The utilities characterize as potentially “uneconomic” the costs that would be recovered by the charges. The costs are not listed as exceptions to the general provision that uneconomic generation costs are to be recovered through the CTC and amortized prior to December 31, 2001. In addition, the utilities would retain the proposed surcharges after December 31, 2001, providing a regulatory protection which extends beyond the period anticipated by AB 1890 for recovery of stranded generation costs.

As a matter of policy, we question the fairness of transferring risk to captive customers. As a matter of law, we are probably without the authority to do so. As Farm Bureau observes, the rule of statutory construction provides that “where exceptions to a general rule are specified by statute, other exceptions are not to be implied or presumed.” (Mutual Life Insurance Co. v. City of Los Angeles, 50 Cal.3d 402, 410 (1990).) The costs which the utilities would include in additional balancing accounts or nonbypassable charges are in addition to the exceptions listed in AB 1890 for recovery by methods other than the CTC. To the extent they might be uneconomic generation costs, they must be recovered through the CTC.

The purpose of this proceeding is to unbundle revenue requirements, not to create new ratemaking mechanisms. Just as we have declined to reduce revenue requirements to reflect lower costs in this proceeding and to eliminate existing balancing accounts, we decline to consider new ratemaking mechanisms. Those ratemaking mechanisms are appropriately topics of other proceedings. We are especially concerned with Edison’s proposal to remove from its PBR \$20 million annually in costs related to its pipeline terminal company and to change the existing ratemaking incentive associated with nuclear performance to a mechanism which would guarantee recovery of \$14.6 million in annual costs.

Finally, we comment specifically on PG&E’s Diablo Canyon ICIP proposal. We observe that we have never authorized the creation of such a charge either implicitly or explicitly. PG&E’s cost recovery plan did not propose such a surcharge,² although the plan stated PG&E would not recover associated costs through the CTC. In this proceeding, PG&E proposes the charge almost as an afterthought. It provides no legal authority for the charge or analysis to support its imposition. Even if we were to interpret AB 1890 to permit such additional

² We also clearly limit the scope of our approval of the cost recovery plans: “The [utilities’ cost recovery] plans vary considerably in their level of detail. Our approval ... covers only the general framework for cost recovery outlined in AB 1890 and the details necessary to launch the program for cost recovery.” (D.96-12-077, slip op. At 5.)

nonbypassable surcharges on customer bills, we would reject this one on the basis that its proponent has failed to meet its burden to support it.

The issue remains as to where the costs of the various utility balancing accounts should be allocated. SDG&E's proposed MAM included only generation costs. They are appropriately recovered as part of the CTC or SDG&E's generation rates. Its proposed revenue requirement for distribution is not therefore not changed. Similarly, PG&E's regulated (that is, distribution and public program surcharge) revenue requirements do not change because the costs associated with Diablo Canyon which are not related to decommissioning are allocated to generation costs or transition costs.

Edison's proposed MAM includes the costs associated with many activities which are attributable to several functions. TURN/UCAN, CLECA, Farm Bureau, and ORA propose specific treatment of each of the accounts' components. These parties agree with the appropriate treatment of most costs. Where they do not agree, we adopt ORA's proposals. Edison's distribution revenue requirement is therefore reduced by \$69.79 million. Its public program surcharge revenue requirement is increased by \$7.113 million. Appendix B presents how the many types of costs would be allocated among transmission revenue requirement, distribution revenue requirement, generation, the CTC, the nuclear decommissioning surcharge or the public purpose program surcharge.

4. PG&E's TRA

PG&E proposes to replace the existing ECAC and ERAM balancing accounts with a "Transition Revenue Account" (TRA). In effect, the TRA is a balancing account for all costs except those subject to PX pricing and CTC treatment. The TRA would guarantee recovery of the authorized revenue requirements.

ORA opposes the TRA partly on the basis that it is the functional equivalent of the ERAM account. ORA observes the Commission has a separate process for evaluating ERAM and ECAC, which is part of the Electric Tariff Streamlining workshop, consistent with D.96-12-088.

We concur with ORA's observation that the TRA is not apparently distinguishable from PG&E's ERAM and that the topic is the subject of more comprehensive review in the Electric Tariff Streamlining effort. Moreover, we are not predisposed toward creating new balancing accounts in this proceeding in any event because to do so would compromise our objective of maintaining existing levels of risk, as we have stated.

5. Final Revenue Requirements

We adopt the following distribution revenue requirements for the utilities:

Edison	\$1,828 million
PG&E	\$1,935 million
SDG&E	\$ 497 million

TURN proposes that rates adopted in this proceeding be set subject to refund because the utility proposals were inadequate and require reconsideration at a later time. We do not believe, as the utilities argue, such an approach would necessarily represent retroactive ratemaking. On the other hand, we are not inclined to revisit these issues in 1998 because of resource constraints and because we wish to promote some certainty among industry participants, customers and parties to our proceedings on these matters. In reaching this conclusion we recognize that the utility revenue requirements are not ideal. Nevertheless, we believe they are adequate until we review utility revenue requirements in relevant PBR or general rate case proceedings.

VIII. Revenue Allocation and Rate Design

Having developed the revenue requirements for each utility, we proceed to determine revenue allocation to customer classes and rate design for various services. Unbundling requires this process of allocating revenues between customer classes in order to get rates for each customer class. Rate design is required in order to determine the types of rates and services available to customers within a customer class.

As stated previously, AB 1890 limits total rates effective on January 1, 1998 to those shown on June 10, 1996 tariffs. The variations between the utilities' proposals are therefore limited. In general, the utilities propose to retain current unit rates with the exception of mandated reductions to residential and small commercial rates. The parties also appear to agree that the Commission will have to revisit revenue allocation and rate design issues prior to the end of the transition period in order to develop appropriate rates reflecting the removal of the CTC rate component and the associated revenues.

A. Revenue Allocation

1. Methods For Allocating Distribution Revenues

As we discussed under retail Transmission Rate Stipulations (Sec. III), we adopt ORA's recommendation to use Edison's EPMC approach on total revenues.

2. Allocation of the Rate Reduction Bond Recovery Costs and Discounts

AB 1890 requires that only those customers who receive the 10% rate reduction--residential and small commercial customers--pay off the costs of the associated rate reduction bonds, which will return the costs of the rate decrease to the utilities. SDG&E proposes that only those customers on its Schedule A be eligible for the discount. ORA proposes that time-of-use customers also receive the discount. SDG&E believes this practice would complicate the administration of AB 1890's requirements.

Notwithstanding any administrative difficulties which may result, AB 1890 requires that residential and small commercial customers receive the rate reduction. In so doing, it does not distinguish between time-of-use customers and others. We therefore require that the utilities offer the reduction to all residential and small commercial customers, including those who subscribe to time-of-use schedules.

3. Allocation of the Costs of Public Purpose Programs, CARE, Nuclear Decommissioning/Incremental Cost Incentive Price

Both the Commission and AB 1890 find that some programs should be funded by way of separate billing charges, among them CARE, public purpose programs such as energy conservation and research and development (R&D) efforts, and nuclear decommissioning costs.

PG&E proposes to allocate the costs of public purpose programs using the system average percent method whereby the CARE program costs are allocated first on an equal cents per kilowatt-hour (kWh) basis then, the remainder is allocated according to the percentage share of the schedule's present revenue requirements relative to the total present revenue requirements. PG&E states that this method is consistent with the current procedure for allocating such costs.

SDG&E and Edison propose instead to allocate these costs on the basis of equal cents per kWh during the rate freeze period. Edison believes using system average costs would be too complicated. SDG&E refers to its proposal as "easy to administer."

DOD, CIU, and CLECA/CMA oppose SDG&E and Edison's method for allocating public purpose program costs, believing they will shift costs to high load factor customers. CAC/EPUC takes the same position, arguing that Edison's allocation would violate the provision in AB 1890 that prohibits cost-shifting.

ORA believes direct access customers, utility full-service customers and bypass customers should pay the same amounts for these types of costs. Accordingly, ORA would calculate the charges as if all customers were served on bundled rates. This means direct access and bypass customers would pay proportionally more than full-service utility customers on the basis of their distribution costs.

We direct the utilities to allocate these program costs using PG&E's system average percent method, which is closest to current cost allocation methods and therefore accommodates AB 1890's rates freeze and prohibition against cost-shifting. Although the rate freeze eliminates any practical effect of this decision, we agree with

CIU and CLECA/CMA that the cost allocation principles we adopt today will as a practical matter serve as the foundation for future debates, if not the ultimate allocations, following the end of the rate freeze period.

B. Rate Design

1. Calculating the CTC

The CTC is the ratemaking mechanism designed to recover uneconomic generating costs and other transition costs. Its level is determined one way or another according to the level of other rate elements and with the limitation imposed by the rate freeze mandated by AB 1890.

The utilities propose to calculate the CTC as the residual cost after calculating all other costs, including the PX price. Thus, the CTC would be equal to the difference between the rate at the rate freeze levels and the combination of all other costs – the PX price, the distribution rate, the transmission rate, the public purpose program surcharge and the nuclear decommissioning surcharge. The resulting actual level of the CTC cannot be known in advance. Accordingly, the utilities propose using real-time pricing and “truing up” the difference after completion of the settlements process with the ISO. Under the utility proposals, each customer would be charged for the CTC according to individual demand on an hourly basis. For direct access customers, the CTC would be calculated using the utility tariff schedule the customer would subscribe to if it were not a direct access customer, that is, the “otherwise applicable rate.” Both direct access and full-service utility customers would experience CTC rates that vary in an inverse relationship to the PX price.

ORA, Enron and Southern Energy Retail Trading and Marketing (Southern) oppose the utilities’ method of calculating the CTC for a variety of related reasons. Southern observes that under the proposal customers will always pay the same total price for generation regardless of the PX price, masking hourly changes in the price and failing to provide meaningful price signals. Southern believes customers will not have an opportunity to reduce their costs by shifting load to lower-priced periods, resulting in less efficient use of the electrical system. Southern proposes that

the Commission mitigate this problem by requiring that the CTC be fixed over a specified period. In order to assure the rate freeze is not compromised by this pricing policy, it would have the Commission impose a cap on the CTC. It also proposes to create a balancing account to adjust for forecast errors and the cap.

Enron makes similar comments, believing that by creating distortions in the market the utility proposals will discourage direct access. Enron proposes that the price volatility which would result from utility proposals be mitigated with rate design measures. Enron and Southern propose, as an alternative to averaging the CTC, that marketers be permitted to pay the CTC directly to the utility and to have separate arrangements with their own customers for payment of the CTC. The process would not involve the utilities but be a private arrangement between customers and marketers. Southern also seeks information from the utilities with regard to the class average CTC to implement the proposal. Enron also argues that the utilities offer no rational justification for having the CTC vary with load since CTC recovers fixed costs which do not vary with load.

ORA opposes the utilities' residual calculation of the CTC proposal, believing that it will make "virtual direct access" impossible because customers would be charged the same total rate in each hour of a TOU period. ORA argues this compromises the Commission's objective to provide customers with market-driven prices signals during the transition period, consistent with D.95-12-063. Like Enron and Southern, ORA recommends calculating the CTC charge for TOU customers as a rolling average for each TOU period in the customer's billing period based on a CTC rate calculated for the customer's otherwise-applicable tariff. The Energy Commission makes similar observations and supports ORA's recommended alternative.

Edison opposes proposals to forecast the PX price, believing that the task would be too difficult. Edison argues that the alternatives proposed by the parties are unworkable for a variety of reasons, among them, the requirement that each customer's CTC charge would have to be calculated individually because customers have different billing cycles and meter read times. Edison also believes the alternative

proposals overlook the conflict between AB 1890 and a non-hourly calculation of CTC, presenting examples of how a customer could pay a higher than tariff energy rate and violating the rate freeze requirement.

PG&E raises concerns with averaging the CTC, arguing that it masks the total cost of energy and conflicts with AB 1890, which provides that direct access customers are not treated differently from utility full-service customers. SDG&E observes that the utilities' method is the only one proposed on the record that assures customer bills will not change due to CTC collection, as required by AB 1890.

We understand the concerns raised by the parties with regard to the utilities' proposals to set the CTC residually. It appears that in fact the result will be to mask price signals, creating system inefficiencies. This could occur under various circumstances. Customers who may be able to shift loads and thereby reduce peak system demand would pay a commensurately higher CTC in spite of their load shifting.³ Customers who negotiate levelized energy prices in order to obtain more predictable energy bills would face volatility in their total energy costs nevertheless because of the variations in the CTC. These circumstances are contrary to our policy objectives and the intent of AB 1890.

In spite of these problems with the utilities' proposals, we believe we have no alternative except to adopt them. Averaging the CTC for all customers in a class over some time period could violate the rate freeze provisions of AB 1890 because use of the average CTC will sometimes cause the total customer rate to exceed June 10, 1996 levels. We are not convinced the application of a balancing account would overcome this shortcoming of Southern's proposal. A balancing account undercollection would have to be recovered during a period when the additional cost to customers would not send total billing components above the price freeze level. Therefore, the undercollection would have to be recovered during a period when the total billing components were below the price freeze level, creating a circumstance that

³ The price signals incorporated in time-of-use rates as of June 10, 1996, would be preserved.

is essentially the same as would occur under the utilities' proposal, namely, the CTC would be volatile and would mask PX prices.

Alternatively, if we were to permit the utilities to average the CTC only for direct access customers, the utilities would be in violation of that portion of AB 1890 which prohibits the utilities from charging direct access customers a different CTC from their own generation customers.

As PG&E observes, applying an average CTC may create market distortions of its own. In some circumstances, it could provide an incentive for low-cost customers to elect direct access in order to avoid paying the higher level of the CTC in the subsequent period. The customer's decision to change suppliers on the basis of the CTC level rather than on the basis of energy prices alone would create inefficiency. Averaging the CTC may also violate AB 1890 by allowing such customers to pay a lower share of uneconomic costs as direct access customers than as full-service customers.

Enron's view that fixed costs need not be recovered according to customer load may be consistent with economic theory. However, the types of costs included in the CTC have historically been recovered per unit of energy customers consume. To change that method of recovery now may violate provisions of AB 1890 which prohibit cost shifting.

The modifications Enron and Southern made to their proposals late in the proceeding eliminated some of the controversy with the utilities. That is, the utilities may implement their methods for calculating the CTC residually, and still accommodate to some extent marketers' concerns about CTC variability. We adopt the utilities' proposals for setting the CTC and approve the proposals of Enron and Southern which would permit them to negotiate CTC payment arrangements with their energy customers. This proposal is consistent with our respect for the sanctity of agreements between firms in competitive markets and their customers as long as those agreements do not impose costs on third parties. The proposal does not compromise any of our other objectives with the possible exception that it does not work equally well for competitors who do not have the financial resources to levelize CTC payments

on behalf of their customers. Nevertheless, it mitigates the problems associated with a variable CTC to some degree.

We regret the problems associated with the CTC calculation but do not have a proposal before us which appears to satisfy AB 1890 and our objective to promote direct access to the extent possible. The problems associated with hourly calculation of the CTC will be eliminated with the elimination of the CTC at the end of the rate freeze period. In the meantime, we adopt the utilities' proposals to calculate the CTC residually on an hourly basis.

2. Virtual Direct Access

In previous orders, we have addressed how customers who do not participate in direct access may opt for "virtual direct access" by relying on time-of-use meters and purchasing energy from the utility on an hourly basis at the PX price. The method the utilities propose for calculating the CTC on an hourly basis create the same problems for virtual direct access as for direct access. That is, a customer who would otherwise shift load to take advantage of low cost energy in off-peak periods would not benefit from the shift because the CTC would increase commensurately. Creating virtual direct access services designed to overcome this problem would put competitors at a disadvantage whose CTC is calculated on an hourly basis, as the law appears to require for services existing June 10, 1996 and therefore subject to the rate freeze. We do not intend to create additional advantages for the utilities by permitting them to offer services with which others cannot compete.

In D.95-12-063, we stated our support for virtual direct access and time-of-use pricing because it would increase system efficiency and offer customers improved service options. We share the parties' concerns that calculating the CTC for time-of-use customers as the utilities propose compromises our objective to promote virtual direct access. Our response is that we appear to have no alternative under AB 1890 based on the alternate proposals presented here. With some regrets, we adopt the utilities' method for calculating the CTC hourly and suspend our intention to create virtual direct access services for the timebeing.

We note that calculating the CTC residually will not mask price signals for customers on existing time-of-use schedules. The rate freeze will require the utilities to retain existing differences between on-peak and off-peak rates notwithstanding the residual calculation of the CTC. During this interim period, it is a reasonable alternative to, although not a substitute for, virtual direct access.

3. CTC Impact on Baseline and CARE Rates

Baseline rates provide lower cost electricity for the first units residential customers use. Subsequent units are priced at somewhat higher levels. Low income customers receive discounted rates pursuant to the “CARE” program. The parties address the issue of how to set baseline and CARE rates to include the CTC and retain the rate differentials following the rate freeze period. PG&E and SDG&E propose a rate differential between baseline and other rates for the distribution rate and CTC so that the rate structure after the CTC is removed from the utility’s rates would continue to reflect the CARE and baseline rate structure. Edison proposes the differential be reflected only in the CTC during the term of the rate freeze. ORA argues that Edison’s approach does not properly anticipate the period following the rate freeze with regard to baseline rates. TURN/UCAN add that Edison’s proposal compromises Commission objectives to establish cost-based rates. Under Edison’s proposal, the only difference in rates between baseline customers and other customers would be in the level of the CTC.

Edison comments that customers will pay the same baseline and nonbaseline rates, regardless of the differential, because total rates will not change. Edison proposes to revisit the matter at the end of the rate freeze period.

We agree with ORA and TURN/UCAN that Edison’s proposal to reflect baseline differentials only as part of the CTC is contrary to our objective to promote cost-based rates. We therefore adopt the proposals of PG&E and SDG&E for baseline and CARE rates. Edison shall amend its rate design for baselines rates accordingly.

4. Edison's CARE Surcharge

Edison proposes to impose a separate CARE surcharge on customer bills rather than include the costs and discounts of the CARE program in the public purpose programs surcharge. TURN/UCAN oppose this separate surcharge, arguing that Section 381(a) anticipates the establishment of the public purposes program surcharge to fund programs described in Section 382, among others. CARE is described in Section 382.

We concur with TURN/UCAN's interpretation of Section 381(a) and direct Edison to include all CARE program costs, including the discount, in the public purpose programs surcharges.

5. Edison's Domestic Seasonal Rate Adjustment

Edison currently has a Domestic Seasonal Rate Adjustment which guarantees that Edison recovers distribution and generation revenues which would otherwise fluctuate seasonally. ORA testified that the adjustment would potentially be anticompetitive because it is not available to competitors who may be subject to seasonal revenue fluctuations as well. ORA argues that differing summer and winter distribution rates could create market distortions that could create subsidies or hurdles for competitors. ORA proposes that Edison should be required to justify any proposed continuation of this adjustment in its tariff filing.

We have some concerns about ratemaking conventions which are designed for the sole purpose of shielding the utilities from risk and which might otherwise create market distortions. We cannot however determine how ORA would have Edison further justify the adjustment. We do not eliminate the adjustment here because doing so may change Edison's risk, an outcome we have stated we will avoid in this proceeding. We may however reconsider the adjustment in the next proceeding which addresses ratemaking issues for Edison.

6. Bill Credit Procedures

The utilities propose to implement the 10% rate reduction for residential and commercial customers by providing a bill credit. While no party objects

to the proposal, ORA believes customers who receive the rate reduction and subsequently switch to a tariff not subject to the associated charge for paying off the rate reduction bonds, should refund the original rate reduction amounts.

We reject ORA's proposal on the basis that it sets up a potentially complex mechanism without any providing any substantial benefit to customers, because the number of customers who are able to take advantage of such a scheme unfairly is likely to be small. The utilities bill credit proposal is adopted.

We also adopt the proposal of the Merced Irrigation District to the effect that a customer who leaves a utility system in order to take service from any other entity which must impose a public purpose program surcharge pursuant to Section 385 shall not pay the initial utility's surcharge going forward because the customer will be paying the charge to the new entity.

IX. Master Meter Issues

A. *Minimum Average Rate Limiter (MARL)*

WMA proposes to reduce the MAR (or MARL for PG&E) for master-metered customers who elect direct access. The MAR applies to master-metered customers only and establishes a minimum level for recovery of energy costs and the Commission fee. WMA proposes that the utilities reduce the MAR to reflect the utilities' cost of purchased power. WMA observes that the utilities will still be able to recover purchased power costs authorized in the CTC.

Edison and PG&E oppose WMA's proposal. PG&E responds that AB 1890 mandated a rate freeze at levels in effect on June 10, 1996 which would be violated under WMA's proposal. PG&E explains that it would treat master-metered customers electing direct access just as it would treat all other customers, that is, master-metered customers would only pay that portion of the MARL attributable to costs not related to PX energy. Edison makes similar comments, adding that WMA's proposal could result in the utility selling its master-metered customers its services at a negative rate.

We do not adopt WMA's proposal because it would effectuated a change in rates which is contrary to AB 1890. As they propose, the utilities will reflect the PX energy cost by way of a credit to the customer who chooses direct access.

B. Funding Costs to Implement Direct Access for Tenants

WMA proposes that master-metered customers be offered an additional discount on submetering to fund capital expenditures park owners require to implement direct access for their tenants. Specifically, WMA says direct access will create new costs for park owners because of the need for them to educate and train customer and park employees, to change tenants' bills and to accommodate competitors making sales presentations to park residents.

PG&E and Edison oppose WMA's proposal on the basis that it would violate the rate freeze required by AB 1890 by providing a discount to submetered customers beyond that allowed by AB 1890.

We concur with the utilities' position that WMA's proposal represents a rate change which is contrary to AB 1890. We understand that some customers may incur transactions costs as a result of electric restructuring. WMA's proposal requires that either the utilities or other customers should bear those costs in higher electric bills, an outcome which we cannot adopt. If WMA believes park owners should pay lower rates because the cost of service to them will be lower under direct access, it may propose related rate changes in forums where we consider utility revenue requirements.

C. Tariff Modifications for Master-Metered Customers

WMA proposes that utility tariffs specify that tenants' bills will not be unbundled by the park owners. Edison opposes the suggestion, observing that tenants of master-metered park owners are not Edison customers and therefore utility tariffs should not specify the relationships between park owners and tenants.

We reject WMA's proposal because, as Edison points out, it assumes a relationship between the utility and the park tenants that does not exist. Park owners are responsible for the bills they render to their tenants, consistent with existing law.

X. Bill Format Issues

To effectuate unbundling, the utilities will need to change their customer bills to provide adequate information to customers about their energy choices and the services they are receiving. The parties agree that the information should be clear and avoid confusion. Generally, the utilities proposed billing formats in consideration of these objectives, although the extent of information the utilities proposed to provide was the subject of some dispute. The utilities emphasized that modifying their billing systems will require substantial time and effort. Edison in particular urges a simple bill format and warns the Commission that it may be unable to program its billing system in time if complex changes to the system are required.

We appreciate the utilities' concerns regarding the timing of billing format changes. Below, we propose certain minimal bill format changes which should be implemented January 1, 1998 and require the utilities to provide additional detail over time. As a practical matter, we do not believe most customers will require the most detailed level of information proposed here in the immediate future. As competition in energy markets takes hold, customers will require more and better information, which our adopted schedule will accommodate.

A. Rate Reduction Bond Credits

AB 1890 requires that the utilities reduce rates to residential and small commercial customers by 10% beginning January 1, 1998. By ruling dated January 31, 1997, the assigned ALJ determined that the Commission would consider methods for doing so in this proceeding.

All of the utilities propose to implement the rate reduction as a bill credit. SDG&E proposes to provide a bill credit to eligible customers. PG&E proposes to reduce all unit charges by 10%, a proposal SDG&E believes may be difficult to administer. TURN proposes that the utilities be required to charge the entire discount to the CTC in order to assure that customers receive the full benefits of the reduction intended by AB 1890. Consistent with TURN's recommendation, PG&E will account

for the reduction as CTC. ORA states it is satisfied with the utility proposals with the modifications PG&E made in its supplemental testimony.

We will adopt the utility proposals to reduce eligible customers' bills by 10% and to account for the bill credit as reduced CTC for direct access customers, the credit will be applied to a customer's bill under its otherwise-applicable schedule before the bill is reduced by the PX cost.

B. Power Exchange Prices

Bills must provide pricing information which will permit customers to make reasoned choices between energy suppliers. ORA and Farm Bureau observe that PX prices must be included on customer bills in order for customers to evaluate competitors' bids.

PG&E proposes that for direct access customers served with the use of statistical load profile and with full service customers, the price that appears on the bill will be the average PX prices for the month. For direct access customers, the prices will be based on the hourly PX price and the hourly-specific loads for each customer.

Recognizing that settlement prices from the PX will not be available for 60 days, PG&E proposes that customer bills estimate the PX price and be subject to a true-up the following month. PG&E also proposes that the Commission reconsider this approach if it does not appear to accomplish Commission objectives.

Edison proposes to include the PX energy price it paid during the billing cycle, based on the customer class load profile. Direct access customers would also show a credit for customer-specific avoided energy costs based on the PX energy price. SDG&E proposes providing customers the option of receiving PX price information, arguing that TURN/UCAN's proposal to provide all customers the price and emission profile of all energy sources will create too much confusion.

ORA recommends that SDG&E's bill include the PX price.

We adopt the proposals of Edison and PG&E and direct SDG&E to include PX pricing information on its bills, either in the format presented by Edison or PG&E. As SDG&E proposes, customers should be provided additional information whenever the utility has the information.

C. *Extent of Unbundling Rates on Bills*

DOD proposes that the utilities be required to unbundle rates for various rates elements, including transmission, distribution, public benefit program costs, nuclear decommissioning costs, demand-side management (DSM), CTC, and PX expenses. The Energy Commission would require a similar level of detail, observing that AB 1890 stated an intent that the utilities provide separate charges for transmission, distribution, transition costs, environmental costs, and low-income program costs.

TURN/UCAN also recommend that the components of the CTC be identified on bill inserts. The categories are uneconomic nuclear generation, uneconomic fossil fuel generation, uneconomic purchased power contracts and “other.” The percentage of the charges for each of these categories would be determined based on the outcome of Phase 2 of the CTC proceeding (Application (A.) 96-08-001, et al.).

CAL-SLA propose that Edison and PG&E follow SDG&E’s lead and (1) provide customers with the option of a detailed or simple bill, (2) separate the PX price from the CTC on each bill, and (3) include the “Reed Schmidt Footnote” on each bill, which explains that the generation charge is based on the costs of purchases through the PX which are subject to competition and which would inform the customers that electricity may be purchased from another supplier. CAL-SLA suggests that if PG&E and Edison are unable to implement sound billing information practices by January 1, 1998, they should be ordered to do so no later than June 1, 1998. ORA generally supports CAL-SLA’s recommendations.

PG&E would not go this far in unbundling rates. As discussed earlier, PG&E is not prepared to unbundle rates on January 1, 1998. Edison objects as well, arguing that listing such items as CTC and nuclear decommissioning charges do not enhance the customer’s ability to compare value. Edison also observes that providing such information is costly.

We believe customers are entitled to information about the services and investments for which they are paying. We balance this view with the cost of providing such information and the confusion it can create for customers who simply

want to pay their bills with the confidence that they correctly identify the services received. We adopt the recommendations of parties who suggest that bills should separately identify the following components: energy, transmission, distribution, CTC, public purpose programs and nuclear decommissioning costs. We also adopt the Reed Schmidt Footnote. The utilities shall therefore include on their bills an easily-identified explanation of the PX price as follows: "This charge is based on the weighted average costs for purchases through the Power Exchange. This service is subject to competition. You may purchase electricity from another supplier." We reject proposals to go further at this time. In order to provide the utilities adequate time to identify these charges, we will direct them to include the charges on bills no later than June 1, 1998. Prior to the date of unbundling, the utilities shall provide information regarding PX prices.

D. Other Bill Information

ORA proposes that the utilities periodically provide information on resource mix and environmental characteristics of electricity purchases. TURN/UCAN propose a similar type of information but with considerably more detail regarding emission profiles for various resources, consistent with the National Association of Regulatory Utility Commissions' (NARUC's) Resolution No.17. SDG&E objects to intervenor proposals to provide such information.

We believe the type of information TURN/UCAN and ORA would have the utilities offer with regard to air emissions is important and useful. Nevertheless, we do not believe all customers will find it useful. We will direct the utilities to collect the data required to provide the information to customers who request it and provide the information annually in a bill insert. Utility bills should notify customers that the information is available beginning January 1, 1999.

Findings of Fact

1. On March 19, 1997, CIU, CLECA, CMA, DOD, ORA, PG&E, SDG&E, and Edison filed a "Joint Motion for Adoption of Retail Transmission Rate Stipulation." No party protested the motion or the stipulation.
2. In its June 5, 1997 filings before the FERC, the Commission stated its support for the proposition that the FERC should defer to the Commission's recommendations

regarding revenue allocations and rate design for unbundled retail transmission service, as proposed by the March 19 stipulation.

3. The application of differing revenue allocation and rate design to retail transmission and retail distribution rates might result in significant shifts in cost responsibility between retail customer classes, contrary to the provisions of AB 1890 which prohibit the Commission from approving cost shifts between customer classes.

4. The rate design and revenue allocation methods set forth in the March 19 stipulation appear consistent with Commission practice and policy for each utility and appear to be consistent with FERC's open access policies.

5. The utilities propose that the Commission adopt distribution revenue requirements equal to the difference between the total nongeneration revenue requirements and the transmission revenue requirements adopted by the FERC.

6. One of the consequences of electric industry restructuring is the increased role of the FERC in setting transmission rates and revenue requirements.

7. The utilities' proposed method for developing distribution revenue requirements would effectively require this Commission to ignore FERC findings regarding the reasonableness of utility revenue requirements proposals and to include in distribution revenue requirements costs the utilities have identified as related to transmission.

8. Establishing a distribution revenue requirement which is premised entirely on the findings of FERC would be a delegation of Commission authority to FERC.

9. If the potential for disparate ratemaking decisions of the FERC and the Commission creates risk for the utilities, it is risk already anticipated by AB 1890 and previous Commission decisions.

10. The utilities will discontinue their role in electric dispatch and system control beginning January 1, 1998. Nevertheless, the utilities seek to recover revenue requirements previously authorized to conduct generation dispatch and control activities.

11. The utilities have not demonstrated that the revenue requirements for dispatch and control will be required beginning January 1, 1998.

12. The utilities' cost of capital may change in various operations as a result of industry changes. The need for an associated review is not urgent.
13. SDG&E's escalation method applies recently adopted PBR escalation rates.
14. Permitting the utilities to recover generation costs in the CEMA would provide a competitive advantage to the utilities in generation markets.
15. Permitting the utilities to recover generation costs in the HSCLS would provide a competitive advantage to the utilities in generation markets.
16. Some costs of generation may be fixed over the short or medium term.
17. The utilities propose to include fixed A&G costs associated with generation in distribution rates.
18. All generation companies will incur fixed costs.
19. All generation companies must ultimately recover all of their fixed costs in order to be viable.
20. The utilities will have opportunities to recover fixed costs following the introduction of direct access.
21. Edison proposes to include certain SONGS and Palo Verde generation costs in distribution rates.
22. The utilities propose to include in distribution rates the costs of marketing and customer service that are not attributable to distribution operations.
23. Some of the costs associated with franchise fees and uncollectibles are attributable to generation operations.
24. PG&E proposes to create a nonbypassable charge and associated balancing account for Diablo Canyon ICIP prices that exceed market prices. PG&E does not provide any analytical or policy support for its proposal.
25. The Commission has not heretofore approved of PG&E's proposed Diablo Canyon ICIP surcharge.
26. Edison proposes MAM, a nonbypassable surcharge and associated balancing account for the costs and revenues associated with 39 separate accounts, including the costs associated with its fuel pipeline terminal company which are currently included in Edison's PBR.

27. SDG&E proposes a MAM associated balancing account for the costs and revenues of several separate accounts related to generation.

28. The MAM and Diablo Canyon ICIP accounts would reduce utility risk from that anticipated by AB 1890 and previous Commission decisions.

29. Many of the costs in Edison's proposed MAM account are unrelated to distribution operations.

30. As part of a comprehensive regulatory program, AB 1890 authorized recovery of uneconomic utility generation costs by way of the CTC which is to be eliminated no later than March 31, 2002. AB 1890 set forth exceptions to the recovery of uneconomic generation costs by way of the CTC.

31. The uneconomic generation costs included in the MAM accounts and the Diablo Canyon ICIP account are not among the exceptions listed in AB 1890 of uneconomic generation costs which are recoverable by way of the CTC.

32. PG&E proposes to replace the existing ECAC and ERAM accounts with a TRA which serves the same purpose and functions the same as an ERAM account by guaranteeing recovery of authorized revenues.

33. The Commission is considering ERAM and ECAC accounts in the Electric Tariff Streamlining workshops.

34. Edison's revenue allocation proposal, which applies the EPMC method on the basis of total revenues, is closest to existing revenue allocation methods and avoids an embedded cost approach.

35. AB 1890 provides that residential and commercial customers receive a 10% rate discount and pay off the rate reduction bonds issued by the utilities.

36. SDG&E proposes that the rate discount be offered only to those customers on Schedule A rather than including those who subscribe to time-of-use service.

37. AB 1890 prohibits cost shifting between customer groups and requires that direct access customers pay the same CTC as utility full-service customers.

38. The utilities propose to calculate a customer's CTC payment on the basis of the customer's demand and set the CTC residually based on the PX price.

39. PG&E's method of allocating public purpose program costs according to system average percentages is closest to current cost allocation methods.

40. Edison's proposal to reflect baseline differentials only as part of the CTC does not promote cost-based rates and does not anticipate appropriate cost allocations following the transition period.

41. Edison's proposal to impose a separate CARE surcharge on bills rather than include them in the public purpose programs surcharge is not consistent with AB 1890, which anticipates the establishment of the public purpose program surcharge to fund CARE program costs, among other things.

42. PG&E states it is not prepared to functionalize distribution and transmission rates on customer bills by January 1, 1998.

43. The utilities propose to bill time-of-use customers for the CTC on the basis of hourly loads. The practice is likely to mask price signals to customers under certain circumstances.

44. Section 378 of AB 1890 may permit implementation of virtual direct access designed in ways which would promote efficient electricity use.

45. Eliminating Edison's Domestic Seasonal Rate Adjustment mechanism will change Edison's risk.

46. ORA proposes to require customers who switch from a tariff subject to the 10% discount to a tariff not subject to the rate reduction bond repayment to repay the original rate reduction amounts. ORA's proposal appears potentially complex without offsetting benefits to customers as a group.

47. Merced Irrigation District proposes that customers who leave a utility system to take service from any other entity required to impose a public purpose program surcharge should pay the surcharge only to the new entity.

48. WMA's proposal to reduce the MAR would effectively reduce rates for master-metered customers, in violation of AB 1890's rate freeze provisions.

49. WMA's proposal to discount rates to master-metered customers to fund direct access costs is contrary to AB 1890's rate freeze provisions.

50. WMA's proposal to require tariffs to specify that tenants' bills will not be unbundled by park owners intervenes in the business relationship between park owners and their tenants.

51. Requiring the utilities to charge the 10% discount mandated by AB 1890 to the CTC will assure that customers receive the full benefits of the discount.

52. Providing PX price information on customer bills and a notice regarding the availability of competitive energy suppliers will promote customer education about energy alternatives.

53. Customers would benefit by having separately identified charges for energy, transmission, distribution, CTC, public purpose programs and nuclear decommissioning costs.

54. Not all customers are likely to find useful information regarding emission profiles for various generation resources.

Conclusions of Law

1. The Commission should support the transmission revenue allocation and rate design proposals included in the Joint Motion filed on March 19, 1997 and adopt those proposals to the extent permitted by law governing state and federal jurisdiction.

2. Section 454 requires the Commission to issue findings with regard to the reasonableness of utility rates.

3. AB 1890 retains the Commission's authority to allocate costs among customers.

4. The Commission should adopt the distribution revenue requirements proposed by the utilities in this proceeding with the adjustments set forth in this decision.

5. The Commission should reduce distribution revenue requirements by amounts allocated to generation dispatch and control.

6. The Commission should defer to the findings of R.92-03-050 and subsequent ratemaking proceedings in considering line extension allowance rules and their effects on revenue requirements.

7. The utilities should be ordered to propose modifications to their cost of capital or justify existing cost of capital revenue requirements in their next PBR proceedings or general rate cases.

8. The Commission should adopt SDG&E's method for escalating revenue requirement.

9. The utilities should be prohibited from entering into their CEMA accounts any costs associated with generation.

10. The utilities should be prohibited from entering into their HSCLS accounts any costs association with generation.

11. The utilities' revenue requirements for distribution should be reduced to recognize a fair allocation of A&G costs between distribution, transmission and generation, as set forth in this decision.

12. The utilities' revenue requirements for distribution should be reduced to recognize a fair allocation of customer service and marketing costs between distribution, transmission and generation, as set forth in this decision.

13. The utilities' distribution revenue requirements should be reduced to recognize a fair allocation of FF&U costs between distribution, transmission and generation, as set forth in this decision.

14. The rules of statutory construction provide that where exceptions to a general rule are specified by statute, other exceptions are not to be implied or presumed.

15. PG&E's request to create a nonbypassable surcharge and balancing account for Diablo Canyon ICIP costs that are above market prices should be denied. Associated costs should be allocated to generation or the CTC consistent with subsequent Commission findings with regard to the CTC revenue requirements.

16. Edison's request to create a nonbypassable surcharge and balancing account for costs set forth in its MAM proposal should be denied. Associated costs should be allocated to various functions as set forth in this decision.

17. SDG&E's request to create a nonbypassable surcharge and balancing account for costs set forth in its MAM proposal should be denied. Associated costs should be allocated to various functions as set forth in this decision.

18. PG&E's request to create a TRA should be denied.

19. The utilities should be ordered to provide the 10% discount mandated by AB 1890 to residential and small commercial customers on all types of rate schedules

and to recover the cost of paying off the rate reduction bonds from the same classes of customers.

20. Marketers and brokers should be permitted to negotiate with their energy customers the method by which customers will pay the CTC to them.

21. The utilities' proposals to develop the CTC residually should be approved.

22. The utilities should be required to allocate the costs of public purpose programs using the system average percent method.

23. The utilities should be required to create a rate differential between baseline and other rates for both distribution rates and the CTC so that the rate structure after the CTC is removed would continue to reflect the baseline rate structure.

24. The utilities' public purpose program surcharges should include all CARE program costs, consistent with Sections 381 and 382.

25. The utilities should be required to functionalize the rates on customer bills consistent with this decision no later than June 1, 1998.

26. Utility tariffs should specify that a customer who leaves the utility system to be served by an entity which must impose a public purpose surcharge pursuant to Section 385 shall not thereafter be required to pay the utility's public purpose program surcharge.

27. The utilities shall reflect the 10% rate reduction to small commercial and residential customers by way of a reduction to the CTC.

28. The utilities should be required to provide information regarding the PX price on customer bills.

29. Customer bills should separately identify charges for energy, transmission, distribution, the CTC, public purpose programs and nuclear decommissioning costs no later than June 1, 1998 as set forth in this decision.

30. The utilities should be required to collect data necessary to provide customers with information about air emissions profiles of various generation resources. Utility bills should notify customers of the availability of the information beginning January 1, 1999.

31. The utilities should be required to include on customer bills an explanation of the PX price and the availability of alternative electricity suppliers, as set forth in this decision.

O R D E R

IT IS ORDERED that:

1. The transmission rate design and revenue allocation proposals set forth in the Joint Motion filed March 16, 1997 and set forth in Appendix A are approved and adopted to the extent permitted by law governing state and federal jurisdiction.
2. The Joint Motion filed March 16, 1997 is granted to the extent set forth herein and to the extent the Commission has acted in accordance with the recommendations of the Joint Motion.
3. The revenue requirements for Southern California Edison Company (Edison) set forth in Appendix B are adopted.
4. The revenue requirements for Pacific Gas and Electric Company (PG&E) set forth in Appendix D are adopted.
5. The revenue requirements for San Diego Gas & Electric Company (SDG&E) set forth in Appendix C are adopted.
6. Edison shall propose cost of capital revenue requirements in its next performance-based ratemaking (PBR) review or related proceeding as set forth in this decision.
7. SDG&E shall propose cost of capital revenue requirements in its next PBR review or related proceeding as set forth in this decision.
8. PG&E shall propose cost of capital revenue requirements in its next general rate case or related proceeding as set forth in this decision.
9. PG&E, Edison, and SDG&E shall not enter into their respective Catastrophic Events Memorandum Accounts any costs related to generation.
10. PG&E, Edison, and SDG&E shall not enter into their respective Hazardous Substance Clean-up and Litigation Cost Accounts any costs related to generation.

11. Utility requests to create nonbypassable surcharges and balancing accounts not identified in Assembly Bill (AB) 1890 are denied.

12. PG&E, Edison, and SDG&E shall file tariffs within 15 days of the effective date of this order which incorporate the provisions of this order and which shall not include any changes to tariffs not anticipated or required by this order. The tariffs shall reflect the revenue requirements for each utility set forth in Ordering Paragraphs herein and shall:

- a. Provide the 10% discount mandated by AB 1890 to residential and small commercial customers on all types of rate schedules and recover the cost of paying off the rate reduction bonds from the same classes of customers.
- b. Permit marketers and brokers to negotiate with their energy customers the method by which their customers will pay the competitive transition charge (CTC) to them.
- c. Determine the CTC residually, as the utilities propose herein.
- d. Allocate the costs of public purpose programs using the system average percent method.
- e. Create a rate differential between baseline and other rates for both distribution rates and the CTC so that the rate structure after the CTC is removed reflects the baseline rate structure.
- f. Include in public purpose program surcharges all California Alternative Rate for Energy program costs, consistent with Public Utilities (PU) Code §§ 381 and 382.
- g. Provide that customer bills will include rates, charges and other information consistent with this decision no later than June 1, 1998. Prior to the time they unbundle rates, the utilities shall specify PX prices as set forth in this decision.
- h. Specify that a customer who leaves the utility system to be served by an entity which must impose a public purpose surcharge pursuant to PU Code § 385 shall not thereafter be required to pay the utility's public purpose program surcharge.
- i. Reflect the 10% rate reduction to small commercial and residential customers by way of a reduction to the CTC.

13. PG&E, Edison, and SDG&E shall collect data necessary to provide customers with information about air emissions profiles of various generation resources. Utility bills shall quarterly notify customers of the availability of the information beginning January 1, 1999.

14. Application (A.) 96-12-009, A.96-12-011, and A.96-12-019 are closed.

This order is effective today.

Dated _____, at San Francisco, California.

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